

Review

The Economic Price of Delaying Cooperation with the ITCY

Over the past 60 years, economics in our country was subordinated to politics. This means that in pursuing a certain economic policy little heed was paid to the economic benefits and even less to the economic costs. This specific manner of conducting a policy over such a long period of time quite certainly left a deep trace on the present-day state leadership's decision making, and the citizens' perception of the kind of policy that needs to be pursued. A majority of the population is not in favor of extraditing Slobodan Milošević to the Hague Tribunal, but rather for a court trial in the country.

The citizens (and probably certain politicians as well, since they oppose the extradition despite the West's clear stands) are unaware of the fact that this policy of opposition has its price. For this reason, it cannot hurt to make a simple calculation of the costs of delaying the extradition of Milošević to The Hague. As far as the economic benefits are concerned, we are unable to detect them.

We are expecting a donors' conference on assistance to Yugoslavia in May or June. The US State Department will press for making assistance conditional on Milošević's extradition. The State Department's pressure is not so significant in the sense of the assistance that can be expected from the US, since it will be modest compared to assistance from other states and institutions and symbolic in relation to our developmental needs. Its importance is in the powerful and positive signal US aid to FRY would send to the broader movement of the world's reopening to FRY, thereby contributing to all the manifold benefits this opening will bring. The absence of the US from this process would send the opposite signal, and considerably slow the process of opening.

The economic price of Milošević's extradition to The Hague can be defined as the difference between receiving donations according to plan at the middle of 2001 and the consequent strong ini-

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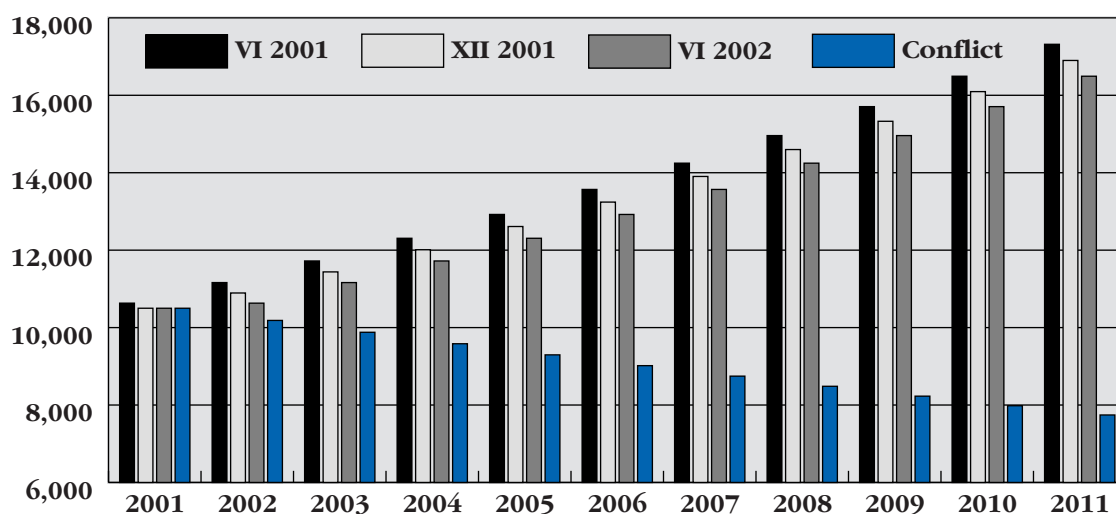
FRY Basic Economic Indicators	2000	2000 1999	III 2001	III 2001 II 2001	III 2001 III 2000	I-III 2001 I-III 2000
GDP growth in real 1994 prices ^a	...	8.4%	...	...	...	...
Industrial Production	...	10.9%	...	11.3%	-3.9%	-0.7%
Montenegro	...	3.7%	...	6.9%	8.0%	1.5%
Serbia	...	11.4%	...	11.6%	-4.6%	-0.8%
Central Serbia	...	12.0%	...	7.1%	-10.2%	-4.8%
Vojvodina	...	10.1%	...	21.6%	8.5%	8.9%
Average Wage - DM	...	...	...	...	...	...
Serbia	93	-11.2%	142	4.3%	73.1%	73.2%
Unemployment Rate ^b	...	...	28.8%	...	...	...
Montenegro	...	...	39.2%	...	...	...
Serbia	...	...	28.0%	...	...	...
Current account, in USD millions	-1,298	3.2%	...	...	...	...
Trade balance, in USD millions	-1,989	-10.6%	-177	-18.0%	-18.0%	8.0%
Export - USD million	1,713	15.0%	188	48.0%	17.2%	13.6%
Montenegro	157	31.1%	13	21.1%	-43.1%	3.4%
Serbia	1,411	13.8%	176	50.1%	27.1%	15.3%
Import - USD million	3,662	12.6%	366	6.1%	-2.9%	10.5%
Montenegro	313	-1.0%	6	-13.6%	-87.3%	-62.8%
Serbia	3,035	15.6%	357	7.0%	8.0%	17.0%
Monetary supply (M1), end of period, in DIN billion	29.6	60.7%	34.8	10.6%	97.0%	84.7%
Cash	10.3	39.8%	11.3	8.3%	79.9%	68.6%
Deposits	19.3	74.9%	23.5	11.8%	106.4%	93.7%
Real money supply, end of period, in DM million	1,043	-26.7%	1,159	10.6%	72.5%	55.4%
Market interest rate, monthly level	5.84%	37.3%	5.09%	-0.8%	-3.4%	15.3%
Retail prices	...	75.7%	...	0.9%	112.2%	112.9%
Serbia	...	70.0%	...	0.9%	111.8%	112.3%
Cost of living	...	85.6%	...	2.1%	110.5%	111.0%
Serbia	...	79.6%	...	2.3%	111.2%	111.2%
Industrial prices	...	106.5%	...	3.4%	112.9%	124.4%
Serbia	...	102.6%	...	3.6%	114.3%	126.2%
Black market exchange rate (din/DM)	25.45	103.2%	30.00	0.0%	33.7%	37.5%

^{a)} Estimates based on information from the Federal Statistics Office.

^{b)} Unemployment rate refers to December.

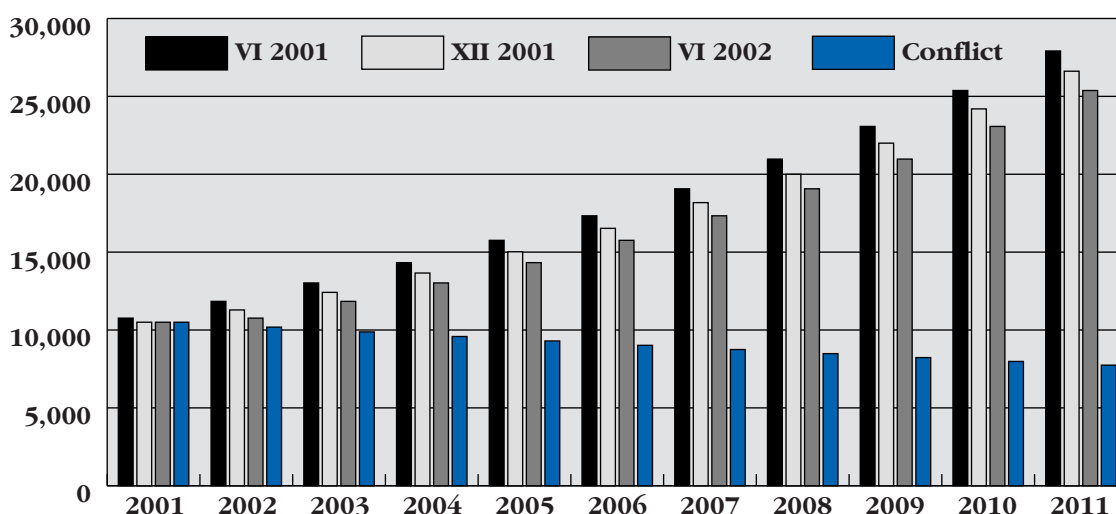
tiation of the economic cycle as of autumn on the one hand, and the receipt of donations at some later date. Under the presumption that the package of assistance worth around one billion US dollars is certain, that it is necessary for initiating economic recovery¹, but that its realization is possible in different periods, and that the economic recovery rate it would lead to can be estimated in different ways, we can obtain different values of the price for delaying Milošević's extradition.

GSP, Assuming 5% annual growth



achievable maximum in the following years unless radical reform moves are made. The possible economic growth rates that would be achieved following the initial inflow of capital are 5% (the IMF's), 7% and 10%. Under the presumption that the growth rate is initiated at an annual rate of 5% in the 2001-2011 period, the cumulative difference between social product in the first and second options is USD 3.5 billion, the first and third USD 6.8 billion and the first and fourth USD 51.4 billion. Under the presumption that the growth rate is initiated at an annual rate of 7% in the period between 2001 and 2011, the cumulative difference between social product in the first and second options is USD 5.4 billion, the first and third USD 10.5 billion and the first and fourth USD 69 billion. Under the pre-

GSP, Assuming 10% annual growth



The main point in time for calculation is the donors' conference in June, and the beginning of the economic cycle in September (a three-month deferral).² The second point in time is December 2001 (economic recovery begins in March 2001), and the third is June 2001 (September 2001). The fourth option is that no economic recovery is initiated, which could also be called the "conflict option". It also implies the additional cost of the drop in the social product at an annual rate of 3% after 2001.

The value of the social product which the calculations are based on is USD 10,500 million in 2001, and it also represents the achievable maximum in the following years unless radical reform moves are made. The possible economic growth rates that would be achieved following the initial inflow of capital are 5% (the IMF's), 7% and 10%. Under the presumption that the growth rate is initiated at the annual rate of 10% in the 2001-2011 period, the cumulative difference between the social products in the first and second options is USD 9 billion, the first and third USD 17.4 billion and the first and fourth USD 99.88 billion.

If Milošević's extradition to The Hague Tribunal is inevitable, then it is very important how much the delay of his extradition will cost us. If, however, "face saving" is insisted on, the price will be terrible, regardless of which presumptions are taken into account in the calculations.

¹ Just as the IMF's green light has a multiplicative effect on talks with other creditors, new credits from international financial institutions and the inflow of foreign direct investments (FDI), the package of assistance for initiating reform processes can also be viewed as a multiplier with an effect on the fresh inflow of foreign direct assistance, the improvement of the investment climate, etc. Therefore, a billion dollars is far from the amount of money necessary for economic recovery, but it can be its prime mover. Also, the international community's negative political reaction that would result in the postponement of assistance could also produce a multiplicative negative effect on the postponement of talks on rescheduling and regulating the foreign debt, the postponement of the already approved assistance (EU, World Bank...), the creation of an uncertain climate for the inflow of FDI and so on.

² This option does not imply Milošević's extradition by June, but it rather means giving, by that time, the US, EU and the Hague Tribunal firm guarantees that the extradition would take place.

Economic and Social Aspects of Gross Wage

Economists' Views

Years of stagnation in the 1980s and the sudden drop in the Yugoslav economy's activities starting 1991, with the maintenance of a relative level of the satisfaction of needs in the sector of public services and entitlements in spheres of social insurance and welfare, were the pillars around which scientific and professional debates were conducted among the economic public.

The course of developments and the increasing lack of funds for science gradually created a dependence of a significant part of scientific economic studies on the needs of current politics. This resulted in the appearance of two main streams of economists: (1) the first included those who endeavored to create solutions regarding development and the economic policy that justified the destructive conduct of the politicians of the time in relation to economic trends for the purpose of achieving personal interests, while (2) the second comprised those who criticized the implementation of destructive mechanisms in managing the national economy and proposed solutions for emerging from the deep crisis that engulfed the entire Yugoslav society and the economy in the 1990s.

As regards the size of public expenditures, the former pointed to the necessity of reducing their relative share in the social product with the most frequent explanation being that the existing social and state companies could not sustain the burden of taxes and contributions on employees' wages. They seemed to be uninterested in the reasons why it is precisely these companies that had found themselves in the position to work with at an impermissibly low capacity, or why they needed to survive without changing anything in their business strategy, ownership, or organizational structure. Also, less important for them was the fact that the users of public services and beneficiaries of social entitlements were the three most sensitive groups of Yugoslav citizens: (1) children and young people; (2) the elderly, the most numerous being pensioners with small pensions; and (3) persons unable to work.

The second group of economists also had understanding for the high burdens imposed on inefficient Yugoslav companies, but pointed out that their problem could not be resolved through the maintenance of small wages for surplus labor and the non-payment of obligations towards the state and social security funds. Rather, the better path was radical changes in the spheres of politics and economics, which would result in a larger social product as the main precondition for resolving all these problems. This is actually the only way to reduce the relative share of public expenditures in the social product in conditions when personal income from these funds is very small compared to the reached high level of the costs of living, as a result of economic inefficiency. However, this implies the restructuring of the existing inefficient companies in line with market principles of doing business.

First Attempt at Introducing Gross Wage

The 1991 fiscal reform in Yugoslavia introduced the category of the gross wage, whereby 50% of the contributions for social insurance were calculated at the expense of the employees, and 50% at the expense of the employers. However, the introduction of the gross wage began at the time when the former state was disintegrating and the new one was entering a period of hyperinflation and the international community's sanctions. This largely hindered a change in the employees' perception of the gross wage, since the high costs of living imposed the need to worry about current spending which boiled down to the satisfaction of the basic needs. It was difficult to think at the time about the point of paying contributions for social insurance which, essentially, represented the employees' savings for future needs. Indeed, when the new manner of calculating salaries was introduced, employees were unprepared in the sense that they were uninformed about the importance of the gross wage for the satisfaction of their future needs. They were familiar only with the net wage in the previous system, when they were able to use health services without limit and to receive pensions after completing their years of service.

On the one hand, there was a considerable reduction of the social product and the salary fund. On the other, rights were granted to the beneficiaries of social insurance and welfare that the state was obliged, under the law, to service. At the same time, the costs of living rose enormously. There appeared a large discrepancy between the inflow of assets and the scope of expenditures that was to ensure the regular payout of pensions, health insurance allowances, unemployment allowances as well as social welfare.

Destruction of Gross Wage

At the time of hyperinflation, a large part of the funds for servicing the entitlements of social insurance and social welfare were ensured by printing money without backing. Employees received, on the average, only around one third of their wage in money, while about two thirds were paid out in kind.¹ The contributions for social insurance were calculated only on the basis of the part of the wage paid out in money, which was actually the only statistically registered part of the wage.

This wage policy model completely derogated the significance of the gross wage. On the other hand, the in-kind payment of a larger portion of wages excluded much of the wage base from taxation creating the following important problems: (1) the inflow of assets into the budgets and social insurance funds, primarily of the pension and invalid insurance funds, was considerably reduced; (2) the real ratio between the average wage and average pension was disrupted; (3) the base for achieving rights in the sphere of social insurance was reduced; (4) belatedness in servicing the entitlements of the beneficiaries of social insurance and social welfare; (5) introduction of other non-taxable or considerably less taxable forms of employee wage, which were not registered in official statistics as part of the wage.

Role of Non-taxable Forms of Payments to Employees

The application of the model of paying the employees' wages in kind in the period of hyperinflation, whose main goal was to preserve social peace, led to the further destruction of the gross wage upon the halting of hyperinflation. The preservation of socially-owned companies which were left without working capital in the period of hyperinflation, represented an important aspect of the then regime's struggle for maintaining the existing situation. Among other things, surplus manpower, who kept being sent on paid leave, was, in various manners and through different institutions of the system, still provided with a guaranteed net wage at a symbolic level, or through some other forms of non-taxable and less taxable income, such as: (1) company-paid meals; (2) holiday cash grants; (3) field allowances; (4) payment for work through students and youth cooperative societies; (5) various types of goods (foodstuffs); (6) commodity credits from companies; (7) other forms of employment income (direct cash payments in well-off companies and so on).

In this sense, it is necessary to point out that company-paid meals, holiday cash grants and field allowances were not new categories of employees' income, but they were now used as a model of financing and maintaining redundant labor in companies that were working at low capacity. Thus, companies survived and workers remained employed on paper.

It is well known that not an insignificant number of companies and other legal entities failed to pay contributions for social insurance over the past few years, with the exception of employees who had achieved their right to a pension. In view of all this and the previously mentioned modalities of paying employees in forms other than wages, it is clear that the problems with the financing of the entitlements of social insurance beneficiaries became increasingly difficult. For this reason, the rates of the wage tax and contributions for social insurance kept being increased, which made the problem of ensuring funds for wages even greater.

Therefore, at issue here are not temporary and accidental financial problems of companies, but rather a constant lack of funds. Namely, the non-payment of taxes and contributions on employees' salaries was not in the function of investing in production, which would, in a way, be justified if such investments were later to produce certain results, but rather the function of postponing the resolution of the companies' problems and maintaining the existing state of affairs.

On the other hand, this practice also spread to those companies that were unable to settle regularly and in line with the law their obligations towards the state and social insurance funds. Analyses of the gray economy indicate that the state and social insurance funds were deprived of considerable assets in this manner.³ Deprived were, quite certainly, also the employees-insurees, but they will pay the price for this much later, i.e. in their old age, unless attention is paid to this in possible changes of the existing system of pension and invalid insurance. It is presumed that employers personified by directors and individuals from the companies' managerial structures could have benefited from the non-payment of taxes and contributions on wages

Average employment income in the Republic of Serbia - in dinars

Type of income	1997	1998	1999	2000
TOTAL	1,101	1,371	1,669	2,913
Wages	958	1,201	1,469	2,539
Company-paid meal	245	284	330	558
Trade union assistance	225	314	543	529
Various types of goods	215	245	401	532
Commodity credits from companies	316	394	432	1,476
Other employment income	574	608	1,440	1,314

Source: Poll on the labor force, statements of the Federal Bureau of Statistics no. 023/1999 and 073/2000

Dimensions of Employees' Income not Included in the Wage

According to the results of a public opinion poll on the labor force conducted by the Federal Bureau of Statistics, the structure of the average employment income in the 1997-2000 period is very interesting, since it reflected the dominant policy and distribution model in the mentioned period.

The table shows that among income not included in the wage the most important is so-called other employment income, followed by commodity credits from companies, company-paid meals, trade union assistance and other types of goods.

Compared to total average employment income in the observed period, on the average the wage accounted for 87%-88%, company-paid meals for 19%-22%, trade union assistance for 18% (in 2000) – 33% (in 1999), various types of goods for 18%-24%, commodity credits from companies for 26% (in 1999) – 51% (in 2000) and other employment income for 44% (in 1998) – 86% (in 1999).

If the above-mentioned categories of average employment income are observed in relation to the average wage, the reached conclusion is that the share of the company-paid meal per employee in the average wage (also per employee) gradually decreased. Other income accounted for over 50% of the average wage in the observed years, excluding 1999 when their share reached 98% of the average wage.

Since these are the results of a public opinion poll, the size of other employment income is very indicative. It seems that this category also includes the statistically unregistered and non-taxable income of employees.

According to data of the Institute of Accounting and Payments on monetary income and allowances to the population, over the past years, the share of the net wage in overall monetary income of employees in the Republic of Serbia was around 60%, and of other personal income around 40%.

The share of other personal income of employees in the fund of the paid out net wages (without sick leave allowances) accounted for 62.83% in 1999, for 67.33% in 2000 and for 57.25% in the first three months of 2001.

In the structure of other personal income, the share of gross income from work through youth and students corporate societies, company-paid meals and holiday cash grants accounts for around 50%.

If we exempt sick leave allowances, severance payments, field allowances, family separation allowances and various welfare and student allowances, as well as transport allowances and retentions from other personal income, there remains income (with the exception of the field allowance for which

there is no data) which, following amendments to the Law on Labor Relations, will be included in the net wage – company-paid meals and holiday cash grants, as well as net income from work through student and youth corporate societies. The share of this income in the net income fund (without sick leave allowances) accounted for 27.92% in 1999, for 29.53% in 2000, and for 28.44% in the first three months of 2001. The share of the company-paid meal and holiday cash grant alone in the net wage fund (without sick leave allowances) accounted for 20.32% in 1999, for 20.93% in 2000 and for 23.84% in the first three months of 2001.

Varying Impact of New Solutions for Gross Wage Calculation

The results of the previous analysis point to the conclusion that, following the implementation of the solutions adopted within the Law on Labor Relations, the net registered wage will increase by around 20%, simply due to the improved methodology. This will enable a reduction of the rates of the wage tax and contributions for social insurance. Under the presumption that the same scope of taxes and contributions is retained, the ratio between the net wage and total transfers resulting from taxes and contributions for income, would be reduced from the present 1:1 or so, to around 1:0.67. In the event that a certain increase in the supply of taxes and contributions is necessary, this ratio would be somewhat more unfavorable, since the rate of the wage tax and contributions for social insurance would be reduced.

However, if one takes into account the results of the analysis of employment income and the poll on the labor force, one comes to the conclusion that the increase in the average net wage could be much higher if unregistered payments (direct cash payments) would be added and if payments in kind to employees would be replaced by payments in money, i.e. if this income would be added to the net wage. This could provide for a larger reduction of the wage tax rate and the collective rate of contributions for social insurance.

In this regard, it is necessary to mention that the implementation of new solutions concerning the scope of the net wage will lead to the statistical increase in net wage by the existing amount of the categories included in the net wage. For this reason, it is also necessary immediately to ensure a comparable methodology of calculating the net wage for the previous period, so that its true increase could be registered. Thus, avoided would be all the confusions concerning the legal adjustment of certain forms of citizens' income, primarily pensions.

Why Two Net Wages?

Unbelievable but true is the fact that two net wage categories are used in the Republic of Serbia's registering system. The first represents the net wage defined by the Law on Labor Relations and it is published within the statistical system. The second is calculated on the basis of certain Instructions and does not contain the part of the income due during state holidays, annual vacations, paid leave, overtime work, past labor, sick leave allowance and the like. This net wage serves as the basis for calculating social transfers, children's allowances and so on.

The net wage calculated according to the Instructions was smaller than the legally defined net wage by 16.4% in December 1995, by 23.4% in December 1996, by 23.4% in December 1997, by 23.8% in December 1998, by 26.4% in December 1999, by 26% in December 2000 and by 26.7% in February 2001.

This clearly shows that the former regime in Serbia skillfully conceived instructions and methodologies that were detrimental to the most vulnerable categories of the population: children, people unable to work and the poor. For this reason it is necessary for the responsible bodies immediately to abolish the instructions for the calculation of the second net wage, i.e. the one serving as the basis of calculating social transfers.

Changes on the Right Road

On the whole, it can be concluded that the present regime in Serbia has initiated very important changes in the system and policy of distribution on the road towards the realization of the program of comprehensive reforms. The introduction of the gross wage as a true category is a step towards the harmonization of fiscal solutions with those in European Union countries. At the same time, this is also a precondition for a relative reduction of fiscalities and the creation of conditions for the regular settlement of the companies' obligations towards the state and social insurance funds.

Structure of monetary income of employees in the Republic of Serbia

Type of income	1999	2000	I-III 2001
TOTAL	100	100	100
Net wages	61.41	59.76	63.59
Other personal income	38.59	40.24	36.41
Various allowances ³	16.88	16.05	13.39
Gross allowances for work through student and youth corporate societies	6.78	9.13	5.21
Company-paid meals	8.47	8.49	9.26
Holiday cash grants	4.01	4.02	5.9
Transport to and from work	2.38	2.48	2.61
Restitutes from Other personal income ⁴	0.07	0.06	0.03

Source: Institute of Accounting and Payments

¹ Miroslav Dinkić, "Social welfare programme in support of the programme of monetary restructuring and the strategy of an economic recovery of Yugoslavia," *Industrija* no.1,2 (1995), pp.97-116.

² "Analysis of the gray economy in FR Yugoslavia with estimates for 1997 and recommendations for its legalization," Economics Institute, Belgrade 1998.

³ Included: sick leave allowances, children's allowances, veterans' allowances, social welfare, disability allowances, scholarships, allowances for the work of pupils and students, per diems and transport allowances for business trips, field allowances, family separation allowances, severance payments.

⁴ Included: deducted membership fees, deductions resulting from credits from other personal income and other deductions from other personal income.

MACROECONOMIC REVIEW

The main goals of economic policy for 2001 are now fully known. The projected growth of the gross social product is 5%, while the share of public expenditures is planned to be 44% of GDP with a 3% deficit. The GDP expressed in dollars accounts to around 10 billion, and is considerably lower than the previously used official data that were under the influence of the unrealistically high presentations of certain components. The planned growth rate of exports is projected to total 12% and of imports around 22%. Thus, this year's trade deficit is to account for around USD 2.5 billion. The final planned inflation is 30%. The realization of these goals implies the creation of preconditions for sustainable development and the beginning of the economy's reconstruction.

Prices and Wages

The 0.9% retail price growth in March led to a temporary price stabilization, but the expected price increase in April, caused by the correction of tax rates and the further elimination of price disparities totaled to 9.3% in Serbia. The total retail price growth in April was mostly the result of an increase in the prices of industrial products by 9.5% (the prices of industrial food products registered 10.3% growth, and industrial non-food products were up 10.2%). The prices of agricultural products recorded an increase of

6.0%. In the previous issue we said that projections of the macroeconomic aggregates were based on an annual inflation of 30%. A large part of the expected inflationary effects (13%) for April and May have already become visible. In the first four months of the year, the inflation rate measured by retail prices in Serbia was 17.7%. A possible problem is the appearance of inflationary expectations and price adjustment related to this.

Net wages (average) in Serbia in March (4,262 din) compared to February 2001 increased nominally by 4.3%. Expressed in German marks, wages in March were worth 142 DEM, which is 4.3% higher than in February 2001. The real purchasing power of the March wage (nominal wages deflated by the consumer price index) was up by 2%. The average wage (expressed in DEM) was higher by 73.1% relative to the same month last year. The average wage for the first three months of this year compared to the same period last year is up by 73.2%. Apart from

wages, an exceptional increase of 23.34% in the population's monetary income was also registered in March. The growth of aggregate demand based on this is not directed towards an increase in the dynamics of production, since there is an outflow resulting from the increases in prices and taxes – the growth of public revenues totaled 10.1%.

Output

Industrial output in the FRY in March 2001 increased 11.3%, month-on-month. Output was up 6.9% in Montenegro, and up 11.6% in Serbia. This marked considerable monthly growth, but industrial output was 3.9% lower than in the same month of last year, under the effect of the same seasonal factors. Relative to March of 2000, output grew by 8.0% in Montenegro, and in Serbia it fell by 4.6%. The drop in

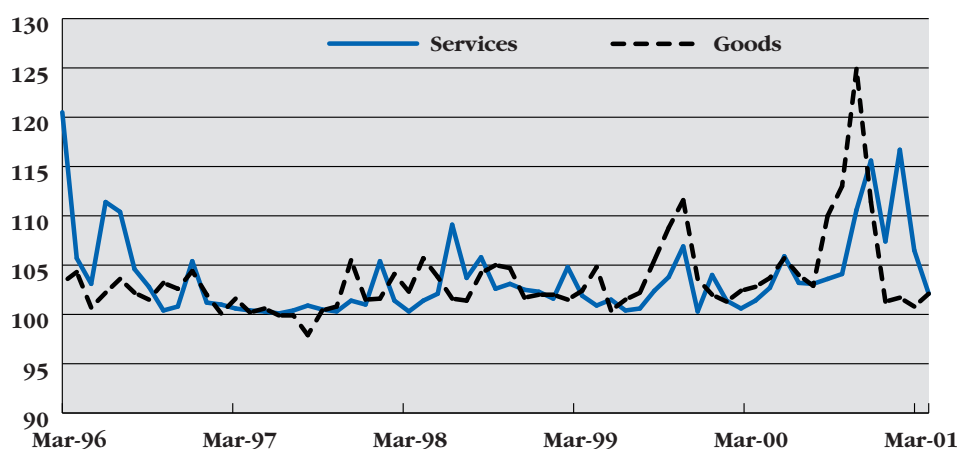
output in Central Serbia was 10.2%, while Vojvodina registered an 8.5% increase. The deseasonalized index for March shows 1.6% growth compared to February.

In Central Serbia, the deseasonalized month-on-month output growth was 7.1%, and in Vojvodina 21.6%. Output fell in 11 spheres – from 20.1% (production of cellulose and paper, and paper processing) to 0.3% (manufacture of garments and fur), while it increased in other sectors – from 235% (production of coke and oil derivatives) to 1.0% (furniture manufacture).

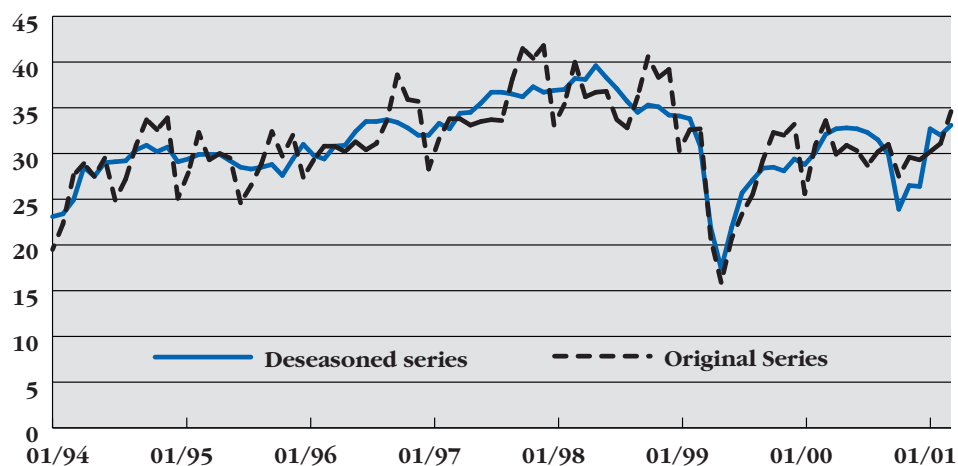
In 18 sectors, output decreased in relation to the same month of the previous year – from 47.1% (metal ore extraction) to 2.9% (production of other machines and devices), while other spheres registered a growth ranging from 126.9% (production of coke and oil derivatives) to 1.8% (manufacture of products from other minerals). Industrial output in the FRY in the January-March 2001 period was down by 0.7% relative to the same period last year. Montenegro registered a 1.5% increase, and Serbia a 0.8% drop. In Central Serbia, output fell by 4.8%, and grew in Vojvodina by 8.9%.

In the first quarter of 2001, output was down in 14 sectors – from 45.1% (metal ore extraction) to 4.3% (production of precision and optical instruments), while it increased in the same number of sectors – from

Trends in Retail Prices of Goods and Services



*FRY Industrial Output
(1989 average = 100)*



37.4% (production of coke and oil derivatives) to 2.7% (manufacture of other machines and devices). A potential danger lies in the continuing delay to overhauling the electric power grid, due to which the projected output growth rates may have to be corrected.

A recovery of industrial production is not to be expected before the second half of the year. In conditions of a pronounced lack of working capital, the insufficient use of capacities and accumulated losses, production can begin its recovery only with the implementation of structural reforms. The first step in these reforms were made in the form of stabilizing the currency, liberalizing somewhat the foreign trade policy, and the liberalization of many prices. The new package of taxes and the reform of the system of public finances represented the second step. The two remaining steps are privatization and the restructuring of the companies themselves, as well as the recovery of the banking sector. The last two steps are linked to the inflow of foreign capital in the form of credits or donations. The conclusion of the stand-by arrangement with the IMF and the obtaining of a credit for structural adjustment from the World Bank ensure the necessary, but still insufficient conditions for economic recovery.

The package of laws pertaining to privatization is going into procedure in March, and the first effects of its implementation are to be expected in the second half of the year. Several successful cases – "early wins" – from the new law directed towards strategic investors may initiate a broader interest on the part of foreign capital, and the expansion of this list is possible if the companies that launched ownership transformation under the old law also seek strategic partners. Finally, a large number of companies will have to undergo restructuring, which implies the resolution of the issue of debts, or the sale of certain parts of the companies in an extremely poor position but possess potential profitability.

Foreign trade

Exports in March reached USD 188 million, marking 47% growth relative to the preceding month (USD 128 mil.). Imports worth USD 366 million, which will rise to around USD 400 million following correction. Monthly imports are unlikely to dip below this level for the remainder of the year.

The appreciation of the real hard currency rate continues. The seeming contradiction between the reduced attractiveness of exports due to the appreciation of the real hard currency exchange rate and the growth of exports is explained by the fact that the "reserves" that existed in the real exchange rate from the period of the dinar's depreciation were extremely large, so that the effects of currency appreciation are still not surfacing. Furthermore, the newly achieved preferential access to the European market annuls part of the negative effects. Nevertheless, the dinar's further appreciation will quite certainly have long-term negative effects on exports.

In the first quarter of the year, exports were directed towards Italy – USD 71 million, Germany USD 58 million and Switzerland USD 48 million. Compared to the previous year, countries of the former Yugoslavia were less important as export partners. Macedonia and Bosnia-Herzegovina both ceded their leading position of last year to the mentioned EU countries.

The largest share in exports since the beginning of the year was to Russia at USD 138 million, Germany at USD 133 million, and Italy USD 90 million. A considerable increase was registered in trade with countries of south east Europe, notably Romania at USD 62 million, Bulgaria USD 76 million, and Hungary USD 52 million.

Money, Public Revenues and Expenditures

At the end of March, the M1 money aggregate stood at 34.8 billion dinars, constituting a 10.6% growth. In mid April, the money supply was 36.2 billion dinars. Deposit money was worth 24.8 billion dinars and cash 11.4 billion. The M2 money aggregate was 42.3 billion dinars. The expansive monetary policy continued in April as well, which also led to the continuation of the remonetization process. This process, which is closely linked to the adjustment of prices, i.e. to the liberalization of prices accompanied by fiscal policy, is for the moment the reason why there is no overheating of aggregate demand.

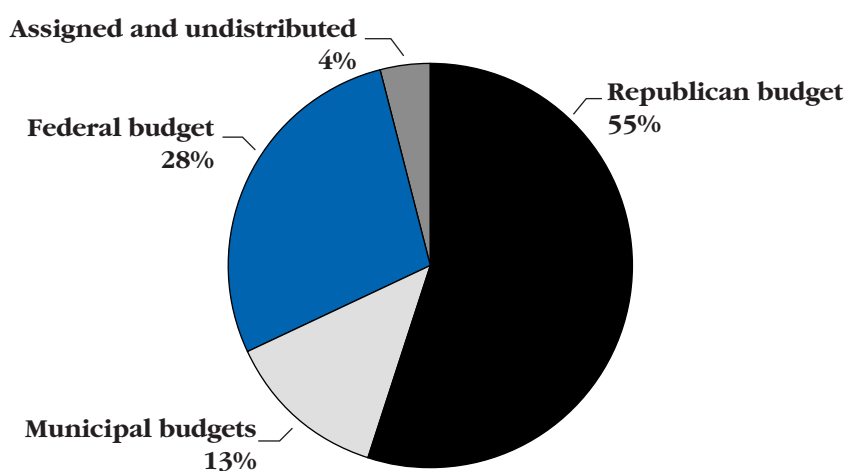
The market interest rate is still just above 5% at the monthly level. Its lowering cannot be expected before the second half of the year, when part of the effects of the transferred inflation wane. So far, the presence of certain foreign financial institution has not led to a major lowering of interest rates on hard currency assets.

Hard currency reserves continue to grow, contributing to the stability of the exchange rate, but this too has its mentioned expenses, which are still considerably lower than the positive effects of the stable conditions for adjustment resulting from the stability of the exchange rate and the depreciation of the transferred inflation.

The gross collection of public revenues in February was 19.8 billion dinars, which is 9.7% higher than the preceding month, when 18.1 billion dinars were collected.

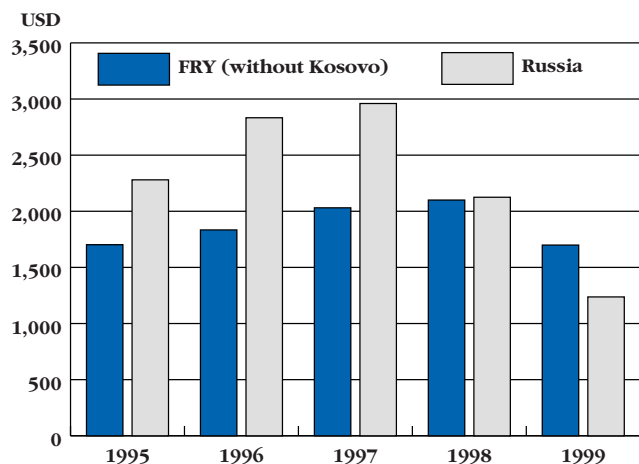
Talks with the IMF ended with the signing of a stand-by arrangement. Meanwhile the FRY has become a full member of the World Bank. The IDA status has been obtained from the World Bank in line with the expectations for achieving a favorable arrangement (Naples conditions) in regulating the foreign debt.

Distribution of State Revenues in FRY, March 2001

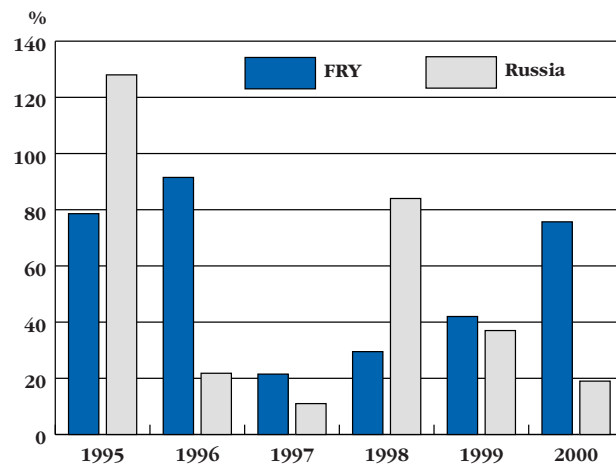


Yugoslavia in the mirror of Eastern Europe

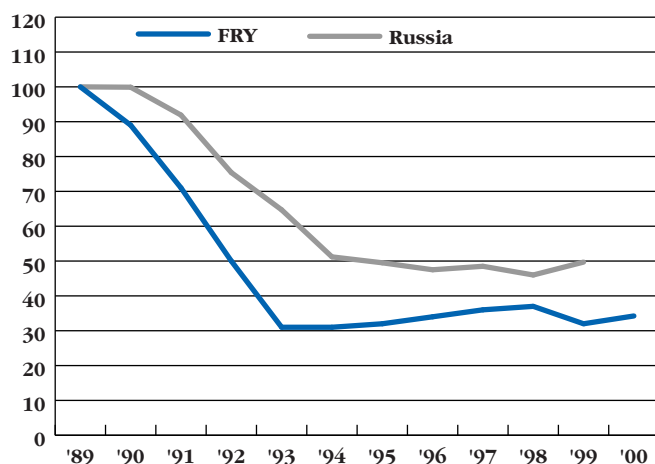
GDP per capita



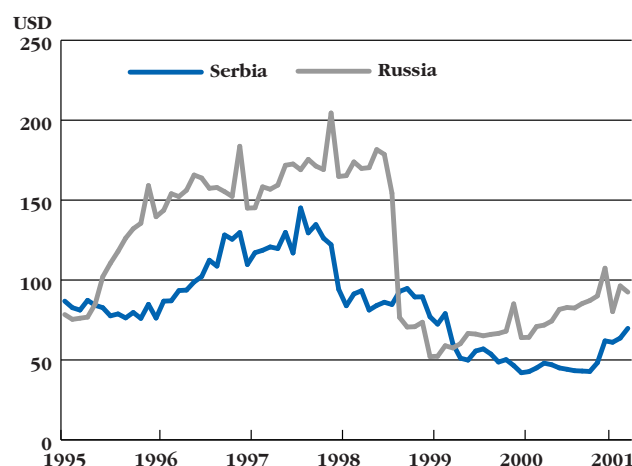
Annual Inflation - retail prices



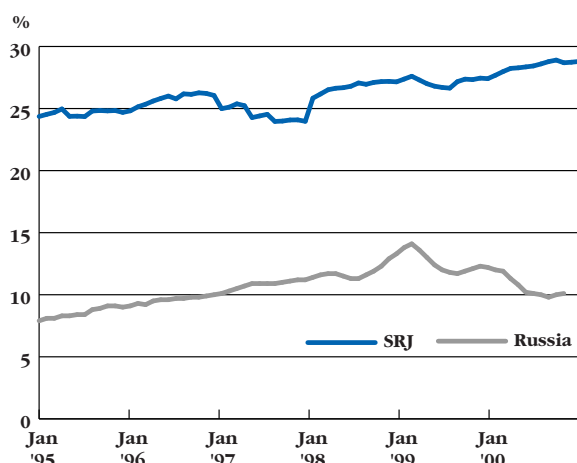
Industrial Production 1989 = 100



Wages



Unemployment



Exports (1993=100)

